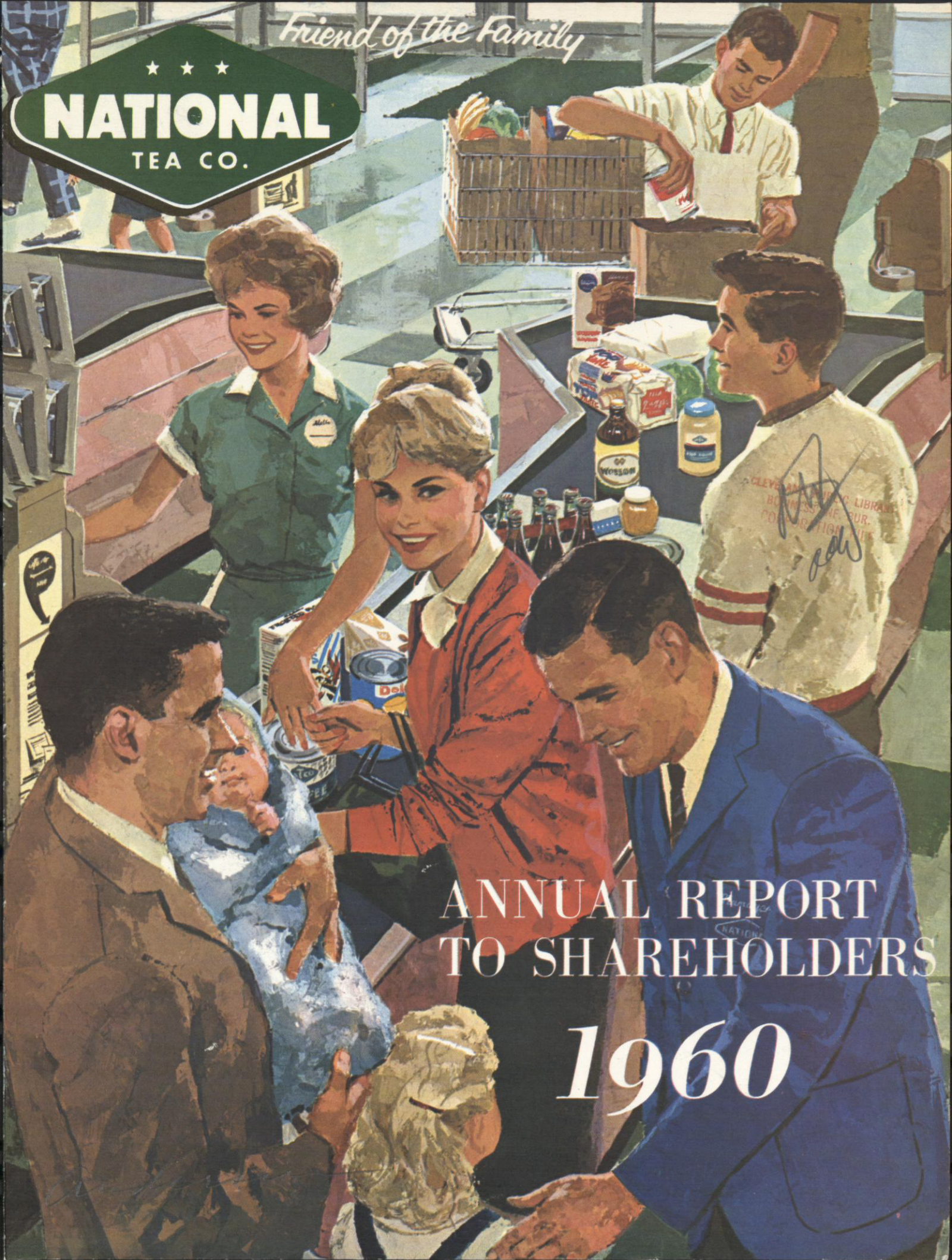
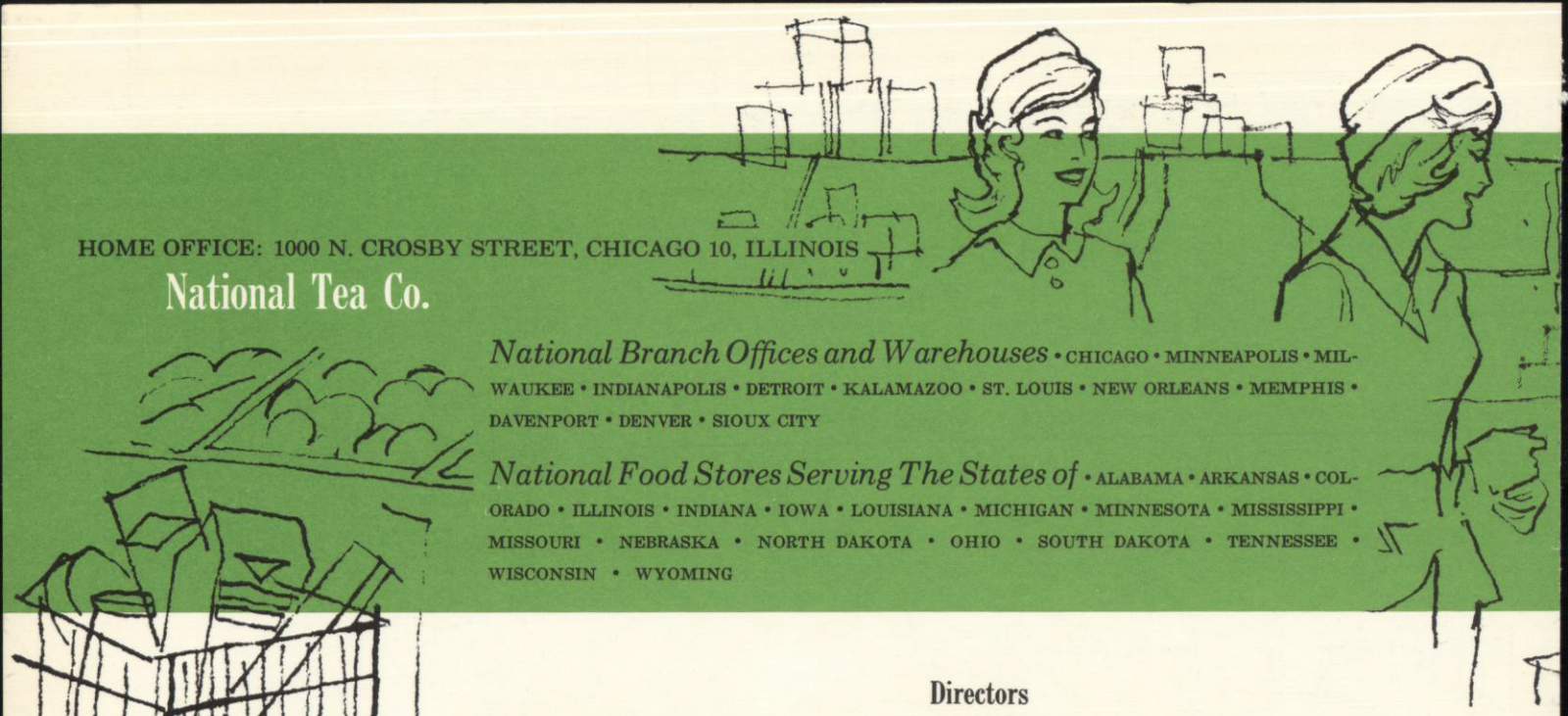

Friend of the Family
NATIONAL
TEA CO.
ANNUAL REPORT
TO SHAREHOLDERS
1960

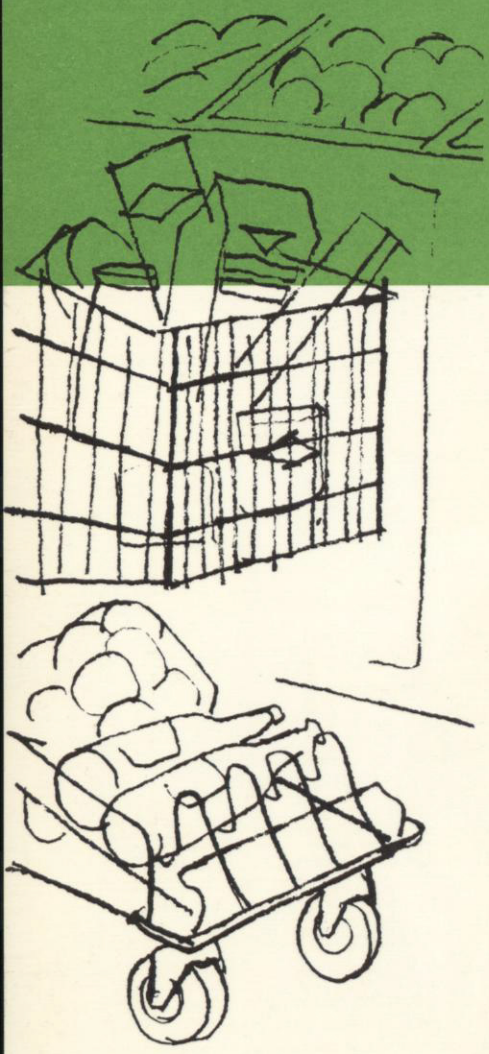


HOME OFFICE: 1000 N. CROSBY STREET, CHICAGO 10, ILLINOIS

National Tea Co.

National Branch Offices and Warehouses • CHICAGO • MINNEAPOLIS • MILWAUKEE • INDIANAPOLIS • DETROIT • KALAMAZOO • ST. LOUIS • NEW ORLEANS • MEMPHIS • DAVENPORT • DENVER • SIOUX CITY

National Food Stores Serving The States of • ALABAMA • ARKANSAS • COLORADO • ILLINOIS • INDIANA • IOWA • LOUISIANA • MICHIGAN • MINNESOTA • MISSISSIPPI • MISSOURI • NEBRASKA • NORTH DAKOTA • OHIO • SOUTH DAKOTA • TENNESSEE • WISCONSIN • WYOMING



Directors

NORBERT L. CHAPLICKI
Vice President

JOHN F. CUNEO*
President of The Cuneo Press, Inc.

EDWARD L. JONES
Secretary of George Weston, Limited

HARLEY V. MCNAMARA*
President and Chief Executive Officer

ROY S. MCPHERSON
(Resigned February 13, 1961, due to illness); Partner, Thorne, Mulholland, Hawson & McPherson (chartered accountants)

RICHARD G. MEECH
Vice President, Secretary and Treasurer of Loblaw Groceterias Co., Ltd.

GEORGE C. METCALF*
Chairman of the Company and President of Loblaw Groceterias Co., Ltd.

CLAUDE H. WEBSTER
Executive Vice President

W. GARFIELD WESTON
Chairman of the Board of George Weston, Ltd.

*Members of the Executive Committee

Officers

GEORGE C. METCALF
Chairman of the Company

HARLEY V. MCNAMARA
President and Chief Executive Officer

CLAUDE H. WEBSTER
Executive Vice President

NORBERT L. CHAPLICKI
Vice President

IRA O. SHY
Vice President

GEORGE E. HOUSTON
Vice President

HAROLD L. WILKENS
Vice President

E. GUY LOY
Vice President

NORMAN A. STEPELTON
Vice President

WILLIAM T. MORGAN, JR.
Vice President and Secretary

CHARLES WOODING
Treasurer

ROBERT E. KOEHLER
Comptroller and Asst. Treasurer

Transfer Agents

THE FIRST NATIONAL BANK OF CHICAGO
Chicago, Illinois

THE CHASE MANHATTAN BANK
New York, New York

Registrars

CONTINENTAL ILLINOIS NATIONAL BANK & TRUST COMPANY OF CHICAGO
Chicago, Illinois

CHEMICAL BANK NEW YORK TRUST COMPANY
New York, New York

Trustees and Paying Agents

3½% Debentures
CHEMICAL BANK NEW YORK TRUST COMPANY
New York, New York

5% Debentures
MORGAN GUARANTY TRUST COMPANY
New York, New York

Financial Highlights

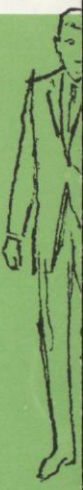
	1960	1959
Operations		
Sales	$855,840,888	$829,518,276
Income before income taxes	17,861,825	18,145,208
Federal income taxes	9,200,000	9,120,000
Net income	8,661,825	9,025,208
Net Income—Percent to sales	1.01%	1.09%
Cash dividends	5,637,287	5,266,038
Earnings retained in the business	3,024,538	3,759,170
Investment		
Working capital	43,376,122	43,954,849
Plant and equipment	71,579,665	67,276,442
Long-term debt	31,104,000	32,070,000
Common shareholders' equity	82,140,961	78,847,439
Shares outstanding	7,053,722	7,033,990
Per Common Share		
Income (based on average shares outstanding)	1.23	1.32
Dividends	.80	.77
Equity	11.65	11.21
Total Stores		
—at end of year	897	910

1960 Distribution of the Sales Dollar

80.25 Cost of Merchandise Sold

11.27 Wages & Benefits

3.31 Rents, Repairs & Depreciation



Management Report to Shareholders of National Tea Co.

HERE ARE THE HIGHLIGHTS OF OUR ACHIEVEMENTS DURING 1960:

1. Sales and gross profit reached an all time high.
2. Our marketing methods again this year were proved efficient and our general operating techniques effective.
3. Our new product lines (particularly in non-foods) proved themselves an important part of the super marketing business. Their higher margins will be a contribution to our future profit picture.
4. We believe our initiation of the Salaried Employee Profit Sharing and Savings Plan is a valuable incentive for building the personnel corps necessary for sound future operation.

Sales

In 1960, our 61st year, we feel that the increase of $26 million in sales was a creditable one. Sales were difficult to achieve in the face of serious competition and 'under-cost' selling in a number of our key markets. We feel we took the proper action to offset this type of competition, and to assure our Company of a sound and substantial future in these affected markets.

In spite of these difficulties, sales of $855,840,888 established a new high for the 16th successive year in our Company. This was a gain of 3.17% over 1959. Average sales per store again showed an increase to $18,216 per week, as compared to $17,321 in 1959. This record was accomplished from normal operations within our previous territory, without benefit of expansion and/or acquisition.

Profits

Although our sales volume improved, expenses also increased, with the result that net income dropped 4% to $8,661,825 in 1960 from $9,025,208 in 1959. Earnings per share, based on the greater average number of shares outstanding, was $1.23 in 1960 vs $1.32 in 1959.

The increased expenses . . . higher wages and salaries and greater costs of store installation, warehousing, transportation and operation . . . were common to our industry. We did everything possible to avoid passing these cost increases to our customers, justifiably we felt, in order to maintain our competitive position in each of our markets.

We believe this profit problem to be only a temporary one in the growth of this vital industry, as we begin to see signs of improvement in many markets. Our profit picture improved substantially in the last quarter of 1960.

It should also be noted, sales and profits of our St. Louis branch were reduced in 1960 by an 11-week strike affecting the major food chains in that city.

Dividends and Shareholders Equity

Cash dividends of 80¢ per share were paid in 1960, continuing at the rate of 20¢ each quarter as established in June, 1959.

Shareholders' equity rose $3,293,522 in 1960, to $82,140,961 or $11.65 per common share outstanding. The number of shareholders continues to rise, and is now estimated to be close to 13,500, including about 2,200 shareholders in brokers' accounts. There were no conversions in 1960 from the 3½% debentures into common stock, and 368,979 shares continue to be reserved for possible future conversions.

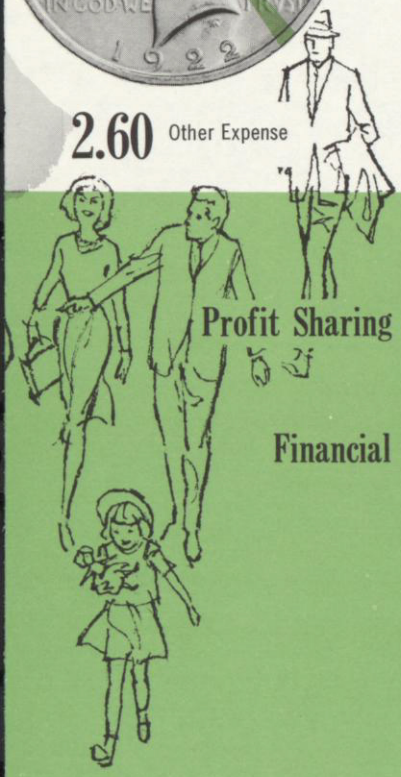
Continued on Page 3

2.60 Other Expense

1.56 Taxes

.66 Dividends

.35 Retained Profit



Profit Sharing

The Salaried Employees Profit Sharing and Savings Plan was put into effect in 1960, with 1,263 management members participating in the company contribution of $458,000. The enthusiasm expressed by these employees assures the success of the plan in promoting a deeper interest in our company.

Financial

Our net investment in stores, warehouses and other plant and equipment, increased $4,303,223 in 1960 as we continue an aggressive program of replacing obsolete properties with new. The effect of larger store size and higher cost is apparent when noting that, in spite of the larger dollar investment, the number of stores was reduced from 910 to 897.

The additional investment in plant and equipment was largely financed by retained earnings and depreciation provisions. Net working capital declined $578,727, but remained substantially at what we consider to be normal levels.

Following is a summary of the source and disposition of working capital funds in 1960:

Source of Funds:	
Net Income	$ 8,661,825
Deferred Federal Income Taxes (related to accelerated depreciation)	897,000
Sale of common shares to optionees	169,788
Mortgage loans on store buildings	200,000
Treasury shares applied to acquisition of business	410,536
Other sources (net)	190,689
	$10,529,838
Disposition of Funds:	
Net expenditure for plant and equipment in excess of depreciation and amortization	$ 3,529,778
Acquisitions of other business	775,500
Retirement of long term debt	1,166,000
Cash dividends on common shares	5,637,287
	$11,108,565
Decrease in Working Capital	$ 578,727

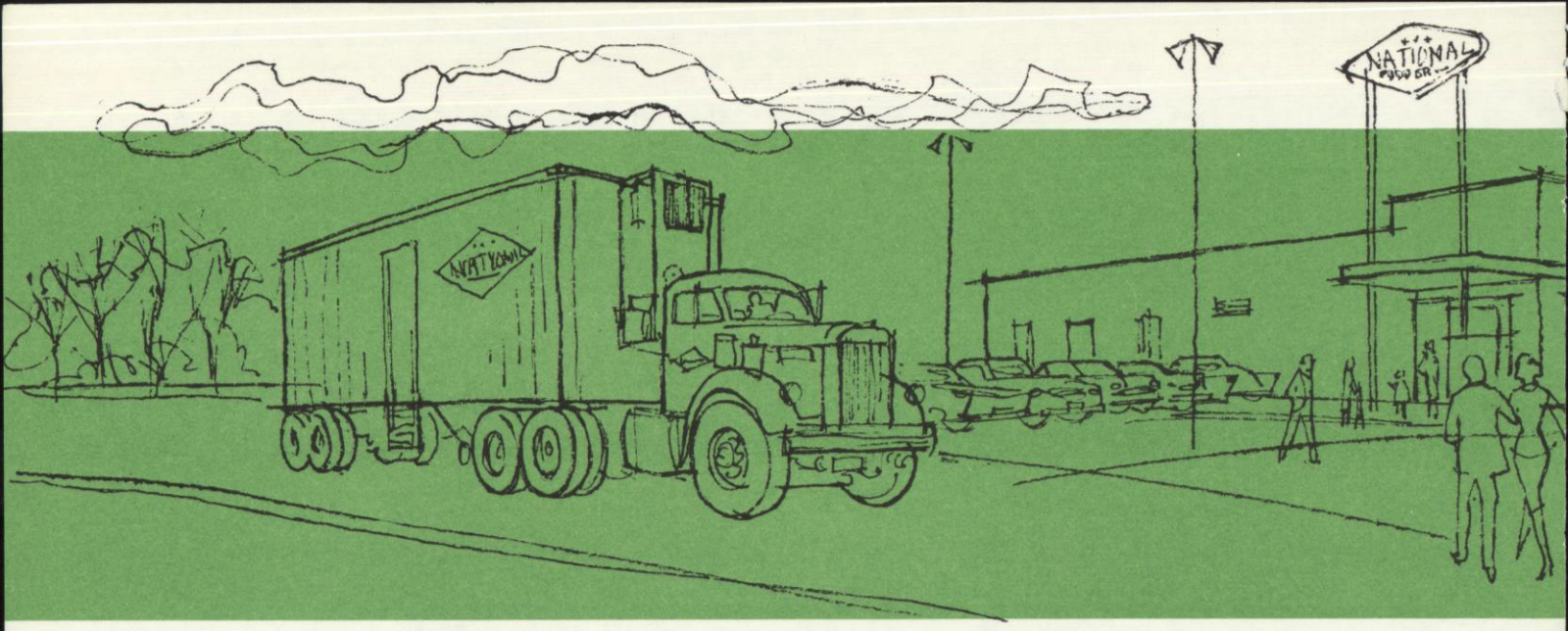
Operations

During 1960, we closed 67 stores and opened a total of 54 new ones, of which 36 were new locations and the balance relocations that had outlived their usefulness from an appearance and production standpoint. We expect to continue our pace of relocating and entering new areas within our present boundaries as outlined on another page of this statement.

This year, our company purchased Wm. H. Heinemann Bakeries, Inc., operating 41 outlets in Milwaukee. This company has aggressive management that will help us in our accelerated growth plans in the Milwaukee area, especially in setting up service bakery units in our own chain of super markets. We are confident this will be an important addition to our company.

A site was selected and option obtained on land for a new warehouse in the New Orleans branch. This new facility is badly needed, and we hope that construction will be completed by the early part of 1962.

Continued on Page 4



We also acquired an existing building in Detroit, and will move our operations to this more suitable location soon. We have been operating from an eight story building with unsuitable loading and unloading space.

The Detroit and New Orleans branches will benefit considerably with the completion of these new operating facilities.

As the year ended, we had negotiated leases for an additional 70 new stores in our various operating areas, a majority of which we anticipate opening during 1961. These new stores are somewhat larger in overall space, especially in sales area, than formerly operated by our company. This is necessary because of the new commodities, departments, and increased number of new items that have been introduced on the market. We feel that our new stores are as modern as sound practices call for at this time.

Organization and Development

In the latter part of 1960, three changes in top management personnel were instituted. New branch managers were elevated in New Orleans, Memphis, and Davenport branches. This caused considerable satisfaction and enthusiasm among our personnel, as all were appointed from the ranks of our own company. By continuing to encourage our young people in study and training for our business, we enable them to be prepared for opportunities of advancement.

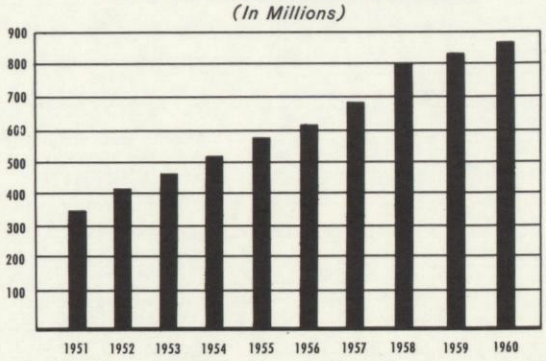
It is only appropriate at this time that we express our sincere thanks and appreciation to all of our 15,750 full time and 8,600 part time employees for their loyalty and hard work during the year. Their efforts and cooperation enabled us to continue our growth in the face of most severe challenges.

Outlook for 1961

At this time, it is difficult to discern an upward or downward direction in our national economy. Thus, to forecast is not only difficult but also imprudent, as there are many cross-currents which can affect the many segments of our business. Nonetheless, since our budgets from the branches show increased sales and profits, we personally believe that this year will be at least as good as last, and there is a reasonable possibility that it will be considerably better.

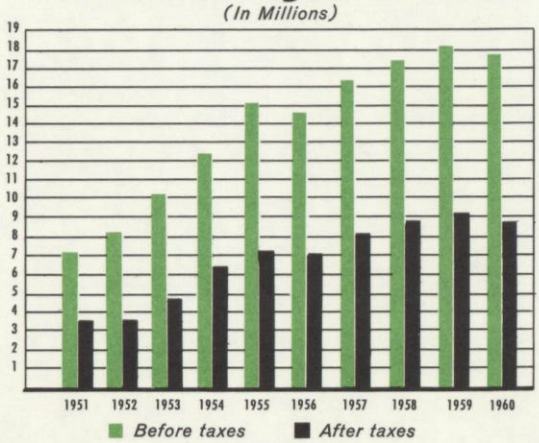
10 Years of Record Sales

(In Millions)

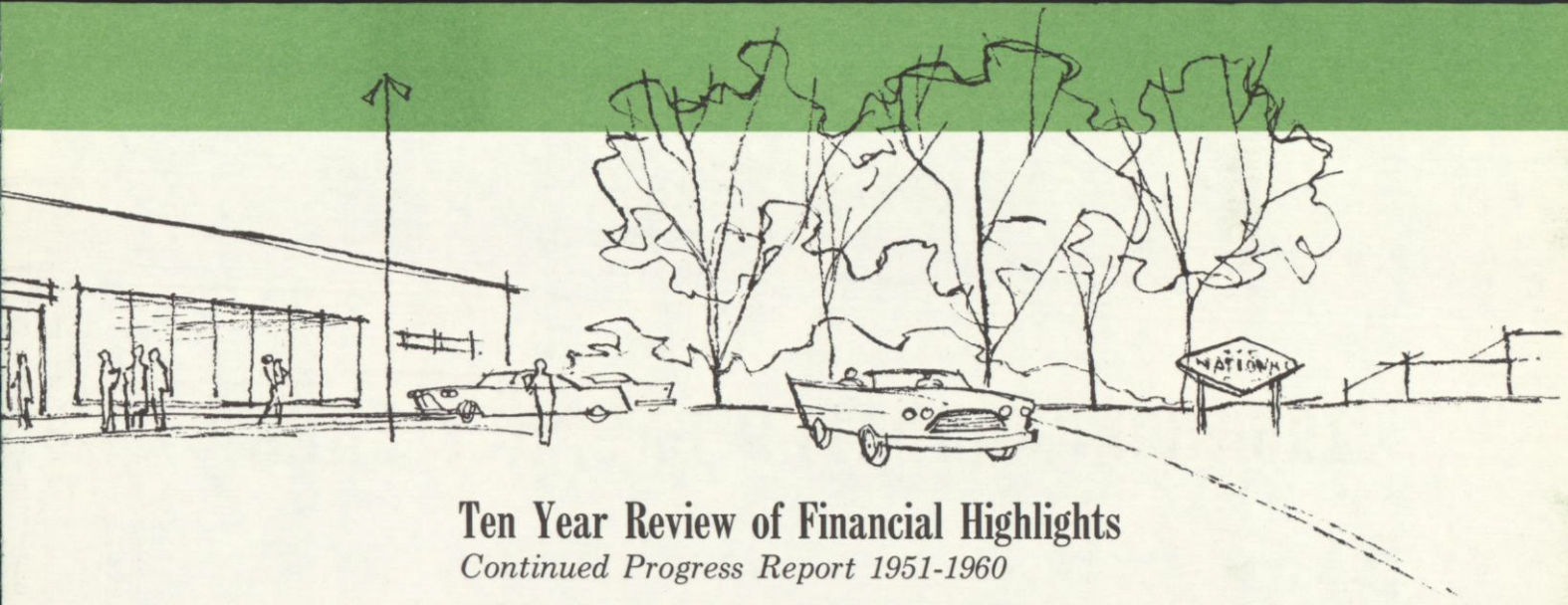


10 Years of Progress in Profits

(In Millions)



H. V. McNamara.

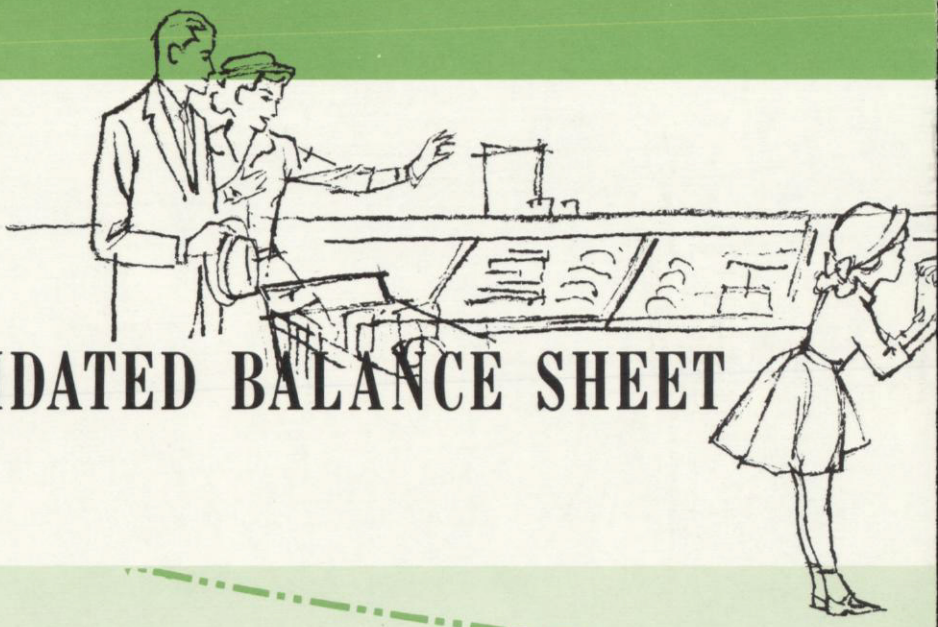


Ten Year Review of Financial Highlights

Continued Progress Report 1951-1960

Year	60	59	58 53 WEEKS	57	56	55	54	53	52	51
						Following reported in thousands (000 omitted)				
Operations										
Sales	$855,841	$829,518	$794,162	$681,132	$617,636	$575,585	$520,300	$462,282	$405,220	$361,321
Income Before Federal Taxes	17,862	18,145	17,742	16,774	14,938	15,237	12,739	10,048	8,408	7,203
Federal Income Taxes	9,200	9,120	8,900	8,720	7,930	8,000	6,220	5,150	4,690	3,595
Net Income	8,662	9,025	8,842	8,054	7,008	7,237	6,519	4,898	3,718	3,608
Percent to Sales	1.01%	1.09%	1.11%	1.18%	1.13%	1.26%	1.25%	1.06%	.92%	1.00%
Cash Dividends:										
Preference	—	—	—	—	—	1	212	450	504	266
Common	5,637	5,266	4,372	4,293	4,241	4,198	2,961	2,594	2,498	2,466
Earnings Retained Before Special Items	3,025	3,759	4,470	3,761	2,767	3,038	3,346	1,854	716	876
						Following reported in thousands (000 omitted)				
Investment										
Working capital	43,376①	43,955①	46,446①	51,039①	42,633	44,122	34,118	30,002	22,586	24,002
Plant and equipment	71,580	67,276	62,598	53,834	43,143	38,530	29,499	25,457	19,413	17,293
Long-term debt	31,104	32,070	39,485	42,539	30,103	30,700	16,200	16,200	4,200	4,600
Common shareholders' equity	82,141	78,847	68,859	61,801	56,286	53,499	45,929	35,538	30,239	28,913
Shares outstanding	7,054②	7,034②	2,221	2,167	2,121	2,120	1,971	1,707	1,568	1,542
						(1958 and prior years adjusted for 3 for 1 split on March 26, 1959)				
Per Common Share										
Income (based on average shares outstanding)	1.23	1.32	1.34	1.25	1.10	1.18	1.14	.91	.69	.72
Dividends	.80	.77	.67	.67	.67	.67	.53③	.53	.53	.53
Equity	11.65	11.21	10.33	9.51	8.85	8.41	7.77	6.94	6.43	6.25
Total Stores										
At year end	897	910	932	883	761	744	711	688	765	624

① Prepaid expenses included in working capital since 1957.
② $4 par value shares after 3 for 1 split on March 26, 1959.
③ Plus extra 2% stock dividend paid to shareholders of record on November 16, 1954.



1960 CONSOLIDATED BALANCE SHEET

Assets

Current Assets:	Dec. 31, 1960	Jan. 2, 1960
Cash	$ 15,688,024	$ 19,471,956
Accounts receivable	4,130,264	4,571,463
Inventories, at lower of cost or market–		
Merchandise	57,331,691	56,635,507
Supplies	1,674,956	1,679,681
Prepaid expenses	2,017,750	3,585,761
Total current assets	$ 80,842,685	$ 85,944,368
Other Assets	$ 2,259,174	$ 2,762,364
Plant and Equipment, at cost, less reserves for depreciation		
Land	$ 1,977,078	$ 1,874,439
Buildings	10,197,964	9,965,630
Fixtures and equipment	76,664,772	71,532,557
Reserves for depreciation	(35,463,823)	(32,450,064)
Leasehold improvements, less amortization	17,030,967	14,934,368
	$ 70,406,958	$ 65,856,930
Excess of cost of investment in branches and subsidiaries over underlying book values at dates of acquisition–in process of amortization	1,172,707	1,419,512
	$ 71,579,665	$ 67,276,442
	$154,681,524	$155,983,174

National Tea Co. & Subsidiaries

Liabilities

Current Liabilities:	Dec. 31, 1960	Jan. 2, 1960
Notes payable	$ 2,000,000	$ 2,500,000
Current maturity of long-term debt	1,166,000	1,166,000
Accounts payable	22,150,771	27,128,386
Accrued liabilities	6,736,094	6,275,037
Federal income taxes	5,413,698	4,920,096
Total current liabilities	$ 37,466,563	$ 41,989,519
Long-Term Debt:		
Mortgage notes on store buildings	$ 200,000	$ —
3½% promissory notes, due 1969	688,000	774,000
4% promissory notes, due 1973	12,900,000	13,500,000
5% sinking fund debentures, due 1977	10,560,000	11,040,000
3½% subordinated debentures, due 1980 (convertible into common shares through 1965)	6,756,000	6,756,000
	$ 31,104,000	$ 32,070,000
Reserves:		
Deferred Federal income taxes (relating to accelerated depreciation)	$ 3,720,000	$ 2,823,000
Self-insurance	250,000	250,000
Minority interest in consolidated subsidiary	—	3,216
	$ 3,970,000	$ 3,076,216
Capital Stock and Surplus:		
Common shares ($4 par value)		

	1960	1959		
Authorized	10,000,000	10,000,000		
Issued	7,073,544	7,059,698	$ 28,294,176	$ 28,238,792
Reserved for options and conversions	560,212	574,478		
Paid-in surplus			9,033,155	8,949,133
Earned surplus			45,135,926	42,111,388
			$ 82,463,257	$ 79,299,313
Less—Cost of treasury common shares—1960—19,822 shares; 1959—25,708 shares			322,296	451,874
			$ 82,140,961	$ 78,847,439
			$154,681,524	$155,983,174

See notes to financial statements.

Statements of Consolidated Income and Surplus

National Tea Co. & Subsidiaries

Income	52 weeks 1960	1959
SALES	$855,840,888	$829,518,276
COSTS AND EXPENSES		
Cost of sales and expenses	$812,713,654	$788,355,417
Depreciation and amortization	9,153,589	8,515,509
Rent	14,067,887	12,816,739
Interest	1,585,933	1,685,403
Profit sharing	458,000	–
Federal income taxes	9,200,000	9,120,000
	$847,179,063	$820,493,068
NET INCOME	$ 8,661,825	$ 9,025,208

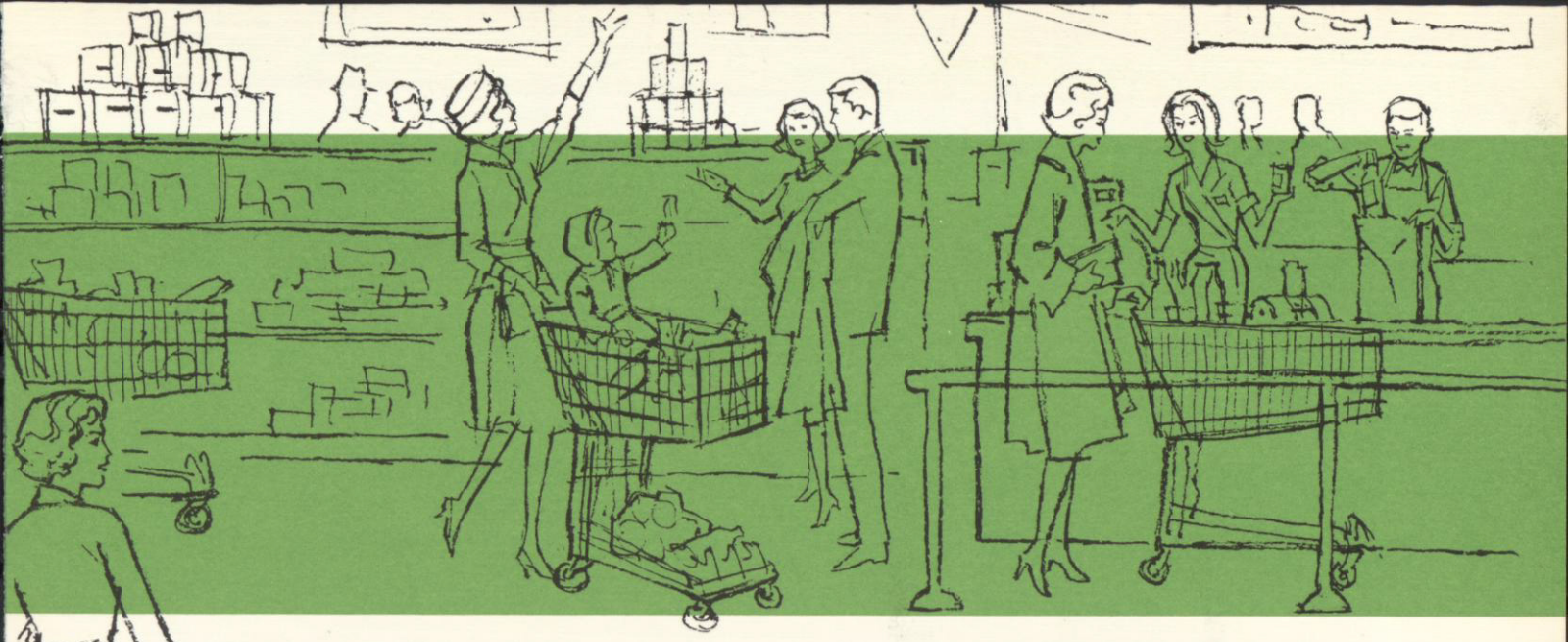
Earned Surplus

BALANCE AT JANUARY 2, 1960	$42,111,388
NET INCOME	8,661,825
	$50,773,213
DIVIDENDS paid on common shares ($.80 per share)	5,637,287
BALANCE AT DECEMBER 31, 1960	$45,135,926

Paid-In Surplus

BALANCE AT JANUARY 2, 1960	$8,949,133
ADD OR (DEDUCT)	
Excess of cost over market value of treasury common shares used for acquisition of business and for other purposes	(30,382)
Excess of proceeds over par value of common shares sold to officers and employees under 1957 stock option plan	114,404
BALANCE AT DECEMBER 31, 1960	$9,033,155

See notes to financial statements.



Notes to Financial Statements—December 31, 1960

Long-Term Debt

The 3½% promissory notes require annual prepayments of $86,000 through 1968.

The 4% promissory notes require annual prepayments of $600,000 in 1961, $700,000 in 1962 through 1964 and $1,000,000 in 1965 through 1972.

The 5% sinking fund debentures require mandatory sinking fund payments sufficient to retire $480,000 debentures in each of the years 1961 through 1972 and $600,000 of debentures in each of the years 1973 through 1976. Additional optional sinking fund payments may be made each year sufficient to retire at the same price debentures not in excess of 50% of the mandatory retirements.

Annual sinking fund requirements to maturity of the 3½% subordinated debentures have been satisfied by conversions into common shares. The remaining debentures are convertible into common shares at $18.31 per share through November 1, 1962 and $19.15 per share through November 1, 1965.

Dividend Restriction

Earned surplus of $24,228,595 is restricted as to the payment of cash dividends on and the purchase of common shares at December 31, 1960. Net current assets remaining after giving effect to the payment of dividends or reacquisition of stock must equal at least $25,000,000.

Stock Options

As of December 31, 1960 there were 191,233 unissued common shares reserved for employee stock options under the plans approved by shareholders in 1957 and 1959. Each option expires five years after grant but not later than January 1, 1966 for the 1957 Plan and January 1, 1969 for the 1959 Plan. 20% of the shares covered by each option becomes exercisable ten months after grant of the option and an additional 20% becomes exercisable each year thereafter.

At December 31, 1960 options for 164,183 shares were outstanding at prices ranging from $11.92 to $21.02 per share, of which 35,053 shares were exercisable.

F.T.C. Complaint

In March, 1959, the Federal Trade Commission filed a complaint against the company alleging that several acquisitions of additional retail grocery stores violated Section 5 of the Federal Trade Commission Act and Section 7 of the Clayton Act. There has been no indication from the preliminary hearings that there should be any adverse effect on the company as a result of the complaint.

Lease Commitments

At December 31, 1960 the company and its subsidiaries had 785 leases expiring three years after that date (some of which contain percentage rental clauses) with minimum annual rentals amounting to approximately $13,841,000 exclusive of taxes, insurance and maintenance payable by the lessee. Of this amount, approximately 74% applies to leases expiring within 10 years.

AUDITORS' OPINION

To the Shareholders, National Tea Co.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation) AND SUBSIDIARIES as of December 31, 1960 and the related statements of consolidated income and surplus for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and surplus present fairly the financial position of National Tea Co. and Subsidiaries as of December 31, 1960 and the results of their operations for the fifty-two weeks then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fifty-two week period.

Chicago, Illinois, February 10, 1961

ARTHUR ANDERSEN & CO.

Friend of the Family

★ ★ ★

NATIONAL

FOOD STORES